

Some Elementary Problems of Business Running in Georgia

Giorgi BAGATURIA*
Ilyas CILOGLU**
Teona MAISURADZE***

Abstract

The purpose of this paper is to identify some trivial reasons of bankruptcy of business in Georgia. One of the main reasons of existing failures is business startups are related to lack of knowledge of business principles and of the negligence of their usage in practice. There is analysis of the existing problems of the people, which lost their property because they took a loan from the bank and (mostly) from private money lenders without any real justification. The analysis shows that in spite of well-known, simplest requirements for successful business activity most of Georgian business beginners have ignored them. The paper shows that to avoid failure and bankruptcy of business is possible only on the basis of deep and broad study of the real conditions of business activity and gives several practical advices for business startups. The paper also offers short program of business education in order to assist business beginners to get acquainted with the most elementary knowledge of business activity.

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Introduction

When we analyze the reasons behind the bankruptcy, we realize that the companies have actually neglected the well-known and practical principle of the management theory. We can identify similar problems with Georgian companies regardless of the duration they have been operating in the market. Thus, this problem is mostly attributed to starting businessmen. So, it is possible to state one of the lessons of business as follow: "Every successful business reaches its fame in an individual, distinct way, while a failure resulting in bankruptcy is always similar and is linked to a single major reason – the incorrect management"⁴.

lyze the statistics all over the world we realize that 70-75% of the start-ups fail in the initial stage of formation (Skok, n.d.; Deeb, n.d.; Tobak, n.d.; CB Insights, 2014). The reality in Georgia is hardened by two main factors, one of them being the "easy" attitude of the businessmen towards the start-up and the other being the sound "business-instructions" given by some consulting intermediaries that are misleading and often inappropriate. For example "it is incorrect to start a business with a debt – many of the existing business today have started with debt; if you have a good idea you should not give up due to not having capital" (Deal, 2012).

In an advice like this, the more emphasis is made on a "good idea" and less on how can this debt be repaid later after the possible failure of the business. That is why the result often is that a "good idea" was not well thought, the business could not succeed and the debt is left to still be repaid.

Incorrect Instructions

Generally it is very difficult to start a business and if we ana-

* Assoc. Prof. Dr., Faculty of Business Management, International Black Sea University, Tbilisi, Georgia.
E-mail: gbagaturia@ibsu.edu.ge

** Assoc. Prof. Dr., International Black Sea University, Tbilisi, Georgia.
E-mail: ciloglu@ibsu.edu.ge

*** Assoc. Prof. Dr., Faculty of Business Management, International Black Sea University, Tbilisi, Georgia.
E-mail: tmaisuradze@ibsu.edu.ge

⁴This is our paraphrase of the beginning of the novel Anna Karenina by Leo Tolstoy - "All happy families are alike, and all unhappy families are unhappy in their". Of course there are many reasons of bankruptcy identified in the literature, like outside business conditions, increase in competition, insurance and general costs of doing business, taxes, sources of financing, disputes with a particular creditor- foreclosures, lawsuits, and contract disputes and also fraud, theft, natural disasters and accidents, and poor location, and so on. Nevertheless the incorrect management is the main foundations of failure and bankruptcy of business.

Let us discuss the example of a “silly sailor” which is a clear example that recommends all that in business in order to succeed one should be a fearless child (TBCBank TV, 2014). Imagine a “silly” sailor who ignores the dangerous waves, rain and the sea and reaches the destination regardless, and a “clever sailor” who sees the danger and is afraid. The “silly” sailor reaches an unknown port and is perceived as a clever sailor due to his achievement. It is indeed true that every person should be seeking innovation, possessing entrepreneurial spirit, but what about the reality in business? The reason ten thousands of sailors (starter businessmen) die in the sea is that they are unable to notice (business) waves, rain and sea. From these many, only one can be a lucky survivor, becoming a billionaire, what good can it bring to the families of thousands of lost “sailors” who have sacrificed all?

Mortgage Loans for Startups

Georgian start-up plan is quite simple. “The young decide to start business and make money”. These people do not bother themselves with accounting, business plan development, profit and loss analysis, marketing research, financial forecasting and so on. What makes the case worse is that these kinds of entrepreneurs have no money and rely on debt financing backed up by their and their families’ personal real estate properties. A loan in most of the arrangements is done through a mortgage, the house, the family of these businessmen live in. Due to various reasons the startups may end up in failure, resulting in the family losing their property and no income to repay the mortgage debt.

The major social problem in our country today is having many families who have lost their real estate properties to loan issuers. The existing debt currently has exceeded 250 million and approximately 74 thousand families are on the edge of losing their homes, even more have lost homes last year (Mortgage demand low, 2013). According to the Bureau of Execution in 2012, 111 families were forced to empty their homes; 718 homes were sold on auction, 961 lands with their buildings were sold on auction (Natroshvili, 2013).

The basis of this execution is the contract agreement that is signed between the parties willingly. Victims of this property loss are now addressing government for help. The social and economic struggle still continues and will ruin the lives of many unless the basic rules of business are considered.

According to the survey conducted in Tbilisi by Business Management Faculty of International Black Sea University, among Tbilisi citizens the reasons of failure of business startups have been identified. As follows were, lack of knowledge of business rules; not considering business competition; lack of knowledge of the product and service; little or no involvement of owners in running business; no prior calculation of costs for business; mismatch of the partners; inability to forecast legal, environmental and political variations.

Basic Rules of Management for Startups

What are the rules of management without which no success can be achieved in business? It is worth to be mentioned that management theory includes all the knowledge

but what needs to be done is share the knowledge to be used in practice.

Standard study courses offer contemporary management principles which should definitely be considered by large companies but this is not the case for our discussion. We can also add that not every successful business uses these principles in running business on daily basis. Practitioners believe that these businesses are not using the full potential and could be more successful, but instead are on the edge of bankruptcy.

We limit ourselves to several business recommendations we consider as vital for business startup success (Bovee, Thill, & Mescon, 2006; Casson, 1995; Briley, 1995; Hill & Stone, 1991). The first recommendation is that before entering a business the business activity should be well studied and the priorities defined precisely. A tested business axiom that can be used here is: “business scope should correspond to the existing private capital”. When a businessman starts a business there is never enough capital. If realization of an ideas with an expected high return is too costly we should advice a businessman to sell a part of the business and find a partner and share a profit rather than arranging a loan from a bank or any other microfinance organization (especially private) on the expense of the final asset they possess, which is the living place. If a businessman is unable to convince someone to become a partner in business idea, than the idea is not a trustworthy from the beginning. In case of the failure of a business the partners lose their shares of investment and the consequences will not be vital, and other operations can be continued, life does not end. When a loan capital is left after a bankruptcy, businessman needs to repay it on expense of the only possession – the living place.

Of course there may be other successful cases of debt repayment, but as we mentioned this happened when the repayment is well planned and is more associated with existing experienced businesses but not to the startups and beginner entrepreneurs.

Conclusion

Among many issues of concern we deal with today, one of the most painful is the numerous families being on the edge of extraction from their homes, having lost the only private property they had left after the bankruptcy. Among those being trapped in this euphoria are the unlucky businessmen, the biggest fault of which are the lack of knowledge of simple business demands. This becomes a reason of debt arrangement in an irrational way when debt is guaranteed by a mortgage, which in the case of failure of business activity is lost to the creditors.

We believe that educational campaign for the young (high school students), aimed at helping them acquire basics of business, will have a positive effect on the problem given. We hope that the ones having at least the basic knowledge of business startups will not engage in irrational decisions and take wrongful steps. Moreover, we believe that this kind of educational program will help raise the awareness of business and develop a business culture in the society helping the economic development of our country.

International Black Sea University has designed a study program for high school students that teaches correspond-

ing theory and gives practical examples to those willing to engage in business startup, focusing on the competences and the desired outcomes. As a result of this study program students will obtain skills for basic business. The course is already being held by the Faculty of Business Management and includes the following topics:

Educational Activity for Basics of Business:

1. Developing Business Thinking

- a. Finding your place in business reality (Identify and study basics of business and main directions; clarify competences and skills needed for business);
- b. Realize the opportunities and challenges in business reality (Identify obvious as well as hidden business risks and define business opportunities);

2. Perceiving and Managing Business Processes

- a. Define the resources needed for business activity (Define the demand for the product, the resources for making a product, the possible ways of obtaining them and their proper usage);
- b. Managing business activity (Reducing or avoiding risks with maximizing profit and minimizing costs).

Study Program:

1. Business and its reality;
2. Necessary demands for business startup;
3. Evaluating obvious and hidden barriers when starting a business;
4. Main directions of business management;
5. Necessary skills and competences for managing business;
6. Resources needed for business activity and the ways to obtain them;
7. Defining the demand for a product;
8. Rational usage of the resources needed for business activity;
9. Practical management: maximizing possible profit and minimizing necessary costs;
10. Business idea and its evaluation.

The pilot program is implemented among Tbilisi high schools, both private and public. 15 contact hours (45 minutes each) are held during the course. The initial results of the implementation of the program are promising, having caused increased interest in the topic discussed. Students have had no difficulty in getting acquainted with the theory behind the problems of business startups. Our prognosis for this stage is that implementing this project on a large scale will lead to the development of business climate in Georgia.

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